

STATEWIDE PRESENT LAW ADJUSTMENTS FOR INFLATION/DEFLATION AND FIXED COSTS

PROBLEM STATEMENT

- The legislature has limited knowledge of the factors influencing the components that make up statewide present law adjustments for fixed costs and inflation/deflation (hereafter referred to only as inflation):
 - The current presentation of fixed costs and inflation rates lacks transparency. “User” state agencies request statewide present law adjustments for fixed costs or inflation to match the requested levels of “provider” agencies. No discussion regarding the programmatic policy issues of the allocation of costs to the user agency is included in the executive request. The only indication of the adjustment is an annual aggregated amount included in the present law adjustments table for each
 - The fixed cost and the inflation (when a state agency provides the associated service and an inflation rate is used to implement cost changes for a state service, e.g. State Motor Pool) components of the statewide present law adjustments may include new proposals. When provider state agencies develop proposed budgets, and consequently propose fixed cost rates or influence inflation rates, new proposals are often included. When this occurs, the resulting fixed cost and inflation adjustments included in statewide present law adjustments are no longer reflective of present law
 - Both the inflation rates and the types of expenditures that have been allowed inflation have varied for the past several biennia. Consequently, the budgetary impact of inflation has varied as well. Historically, there has been little or no review or discussion by the legislature on inflation/deflation rates and which expenditures it is applied to. The determination of inflation rates and which specific expenditures will be adjusted for inflation is made by the executive
 - There are inconsistencies in the application of inflation factors. For example, local government block grants are inflated “statutorily” as are public school entitlements, while other budget items are inflated or deflated at the discretion of the executive
- The current budget process prohibits the legislature from efficiently implementing policy changes to statewide present law adjustments.
 - The executive branch makes policy decisions during the executive planning process that influence the components of the statewide present law adjustments, such as the expenditure category that will be adjusted for inflation, the associated inflation rates, and other operating cost initiatives of state government service provider programs that influence the level of fixed costs assessed to other state agencies
 - Currently, the legislature only reviews the policy decisions made by the executive that impact statewide present law adjustments is after the legislature convenes.
 - With the budget system currently used, making a change to the proposed executive budget that would implement a policy change by the legislature (such as changing the inflation rate for an item or changing a fixed cost rate) becomes a time-consuming, manual process

ACTION PLAN

Based on the above statement defining the issues related to statewide present law adjustments, LFD staff will explore and develop options for enhancements to the legislative budget process that address these issues, and will provide recommendations to the Budget and Appropriations Subcommittee at their May or June meeting.

QUESTION

Does the above problem statement reflect the issues regarding statewide present law adjustments as the subcommittee sees the issue?